

Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 NEA-10 ISO-00 EURE-00 SSO-00 NSCE-00

INRE-00 USIE-00 AGR-05 CEA-01 CIAE-00 COME-00 DODE-00

EB-07 FRB-03 H-02 INR-07 INT-05 L-03 LAB-04 NSAE-00

NSC-05 PA-01 AID-05 CIEP-01 SS-15 STR-04 TAR-01

TRSE-00 PRS-01 SP-02 FEAE-00 OMB-01 /103 W

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O R 201751Z JAN 76

FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC IMMEDIATE 337

INFO ALL EC CAPITALS 1564

AMEMBASSY JAKARTA

AMEMBASSY NEW DELHI

C O N F I D E N T I A L EC BRUSSELS 00573

E.O. 11652: GDS

TAGS: ETRD, MTN, EEC, EAGR

SUBJECT: EC DISCUSSES TROPICAL PRODUCTS OFFER

REF: (A) EC BRUSSELS 473, (B) STATE 1106, (C) MTN GENEVA 201,

(D) 75 EC BRUSSELS 1519

1. SUMMARY: GUNDELACH HAS NOT YET GIVEN US THE COMMISSION'S TROPICAL PRODUCTS PROPOSAL BUT WE HAVE OBTAINED FURTHER DETAILS FROM A PERMREP SOURCE. THE COMMISSION'S PROPOSALS FOR EXPANDED GSP TOBACCO CONCESSIONS HAVE PROVOKED DIVERSE REACTIONS FROM MEMBER STATES, BUT THEY ARE LIKELY TO SURVIVE, ALBEIT IN MODIFIED FORM, MEMBER STATE REVIEW. THE NEXT, AND FIRST DULL DISCUSSION, OF THE TROPICAL PRODUCTS PROPOSAL WILL TAKE PLACE IN THE ARTICLE 113 COMMITTEE FRIDAY, JANUARY 23. END SUMMARY.

2. WE HAVE NOT YET RECEIVED THE TEXT OF THE EC COMMISSION'S TROPICAL PRODUCTS PROPOSAL, WHICH GUNDELACH
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SAID HE WOULD TRY TO GET TO US (REF A), BUT A UK

PERMREP SOURCE HAS GIVEN US SOME FURTHER DETAILS ON THE PROPOSED GSP TOBACCO OFFER.

3. THE COMMISSION IS PROPOSING A GSP DUTY OF 8 PERCENT WITH NO QUOTA LIMIT, FOR FLUE-CURED VIRGINIA-TYPE TOBACCO IN CXT 24.01A. IN ADDITION IT IS PROPOSING THAT THE CURRENT GSP TOBACCO CONCESSION WHICH IS APPLICABLE ONLY TO FLUE-CURED VIRGINIA-TYPE TOBACCO FALLING IN HEADING 24.01B, BE EXPANDED TO INCLUDE OTHER TYPES OF TOBACCO (PRINCIPALLY BENEFITTING INDONESIA). THE EXISTING 38,000 TON QUOTA FOR GSP TREATMENT WOULD BE INCREASED TO 50,000 TONS. THE 10.5 PERCENT GSP DUTY WOULD BE REDUCED TO 8 PERCENT BUT THE MINIMUM DUTY WOULD BE RAISED FROM 15 U/A PER 100 KILOS TO 19 U/A PER 100 KILOS.

4. OUR BRITISH SOURCE SAID HIS GOVERNMENT HAD PUSHED FOR IMPROVED GSP TREATMENT OF FLUE-CURED VIRGINIA-TYPE TOBACCO, A TYPE MAINLY PRODUCED, AMONG EC GSP RECIPIENTS, BY INDIA, ON FOUR GROUNDS: TO BE HELPFUL TO INDIA; TO REDUCE THE COST OF RAW MATERIAL TO THE UK TOBACCO INDUSTRY, WHICH HAD BEEN ACCUSTOMED TO DUTY-FREE INDIAN TOBACCO; BECAUSE AN INCREASING AMOUNT OF INDIAN VIRGINIA-TYPE TOBACCO WAS RISING ABOVE THE 380 U/A PER 100 KILO VALUE LIMIT FOR THE EXISTING GSP CONCESSION (30 PERCENT OF THE UK'S LAST YEAR IMPORTS OF THIS TOBACCO TYPE FROM INDIA, AND ALL OF IRELAND'S, ROSE ABOVE THE LIMIT); AND BECAUSE DUTY-FREE ENTRY OF TOBACCO FROM ACP COUNTRIES (REF D) WAS UNDERCUTTING INDIAN SUPPLIERS.

5. THE COMMISSION'S PROPOSAL, INSOFAR AS IT AFFECTED 24.01A, SATISFIES BRITISH DESIRES. HOWEVER, THE CHANGES IN 24.01B ARE LESS WELCOME. THE EXPANSION OF THE PRODUCT COVERAGE WAS MADE AT THE INSTANCE OF THE NETHERLANDS, AND WOULD MAINLY BENEFIT CERTAIN CHEAP BLACK TOBACCO PRODUCED IN INDONESIA. THE NETHERLANDS ARGUED THAT INDONESIA DESERVED EQUAL TREATMENT WITH INDIA. HOWEVER, THE INDONESIAN BLACK TOBACCO COMPETES WITH INTERNAL EC PRODUCERS (MAINLY

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ITALY). THE COMMISSION FELT THAT TO LIMIT THIS IMPACT, WHICH COULD LEAD TO HIGH INTERNAL COSTS, IT MUST RECOMMEND AN INCREASE IN THE MINIMUM DUTY. THIS, AS WELL AS PROVIDING INDONESIAN COMPETITION FOR THE (SOMEWHAT ENLARGED) QUOTA, DISPLEASED THE UK.

6. SO FAR, OUR SOURCE SAYS, THE COMMISSION PROPOSALS HAVE NOT RECEIVED THOROUGH EXAMINATION. THERE WAS

ONLY BRIEF, GENERAL DISCUSSION IN THE ARTICLE 113 COMMITTEE MEETING OF JAN. 9. AT THE JAN. 16 ARTICLE 113 COMMITTEE MEETING, DISCUSSION WAS BRIEF, BUT MEMBER STATES REGISTERED SOME COMMENTS OR OBJECTIONS. THE BRITISH APPARENTLY VOICED SOME OF THE POINTS MADE ABOVE. THE FRENCH PROPOSED THAT THERE BE A QUOTA ON VIRGINIA FULUE-CURED BUT NO LIMIT ON OTHER VARIETIES. THE DUTCH WANTED A COMPLETE REFORM OF THE EC TARIFF TREATMENT OF TOBACCO. SIMPLE AD VALOREM RATES SHOULD BE SET; THE GSP RATES SHOULD BE 50 PERCENT OF THE MFN. THE ITALIANS SOUNDED UNHAPPY ABOUT THE WHOLE IDEA. THE GERMANS SAID NOTHING.

7. THIS FRIDAY'S MEETING OF THE ARTICLE 113 COMMITTEE SHOULD BE THE FIRST LENGTHY DISCUSSION OF THE PROPOSAL, WITH MOST OF THE DAY BEING DEVOTED TO IT.

8. IN OUR SOURCE'S JUDGMENT, IT IS HARD TO SEE HOW THE TOBACCO PART OF THE COMMISSION'S PROPOSAL WILL FINALLY COME OUT; THE ONLY CERTAINTY, IN HIS VIEW, IS THAT COMPETITIVE BLACK TOBACCO WILL NOT BE ALLOWED IN ON A QUOTA-FREE BASIS.

9. IT SHOULD BE NOTED THAT THE TOBACCO ISSUE IS NOT THE ONLY ELEMENT OF THE COMMISSION'S PROPOSAL THAT HAS EVOKED OBJECTION. IN THE JAN. 16 ARTICLE 113 COMMITTEE MEETING THE GERMANS STATED THE IMPOSSIBILITY OF THEIR REMOVING THEIR INTERNAL TAX ON COFFEE. THE ITALIANS WERE LESS CLEAR BUT PROBABLY EQUALLY NEGATIVE ABOUT PHASING OUT THEIR INTERNAL TAXES. THE FRENCH SAID THEY WERE STILL CONFIDENTIAL

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STUDYING THE PROPOSAL BUT HAD HOPES OF GOING ALONG WITH IT.

10. COMMENT: GIVEN THE COMPLICATED TANGLE OF PROPOSALS AND MEMBER STATE REACTIONS, THE COMMISSION'S HOPE OF PUTTING THE PROPOSAL BEFORE THE COUNCIL OF MINISTERS AT THEIR FEB. 10 MEETING SEEMS WILDLY OPTIMISTIC, EVEN THOUGH WAITING TILL THE NEXT FOREIGN MINISTERS COUNCIL, MARCH 1-1, RISKS MAKING THE EC OFFER LATE. HOWEVER, THE DIFFERENCES OVER THE DETAILS OF WHAT TO DO ON TOBACCO SHOULD NOT OBSCURE THE FACT THAT THERE APPEARS TO BE AN EC CONSENSUS TO IMPROVE ITS GSP TOBACCO CONCESSION. GREENWALD

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, TRADE, AGRICULTURAL COMMODITIES
Control Number: n/a
Copy: SINGLE
Draft Date: 20 JAN 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ShawDG
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976ECBRU00573
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760021-0407
From: EC BRUSSELS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760142/aaaabksp.tel
Line Count: 167
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 76 EC BRUSSELS 473, 76 STATE 1106, 76 MTN GENEVA 201
Review Action: RELEASED, APPROVED
Review Authority: ShawDG
Review Comment: n/a
Review Content Flags:
Review Date: 26 MAR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <26 MAR 2004 by izenbei0>; APPROVED <29 JUL 2004 by ShawDG>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: EC DISCUSSES TROPICAL PRODUCTS OFFER
TAGS: ETRD, EAGR, EEC, MTN
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006